

**BEFORE THE
ILLINOIS COMMERCE COMMISSION
ATMOS ENERGY CORPORATION
DOCKET NO. 04-0405 SURREBUTTAL TESTIMONY
OF
PATRICIA D. CHILDERS**

Q. Please state your name and business address.

A. My name is Patricia D. Childers and my business address is 810 Crescent Centre Drive, Suite 600, Cool Springs, TN 37067.

Q. Are you the same Patricia D. Childers that has previously filed direct and rebuttal testimony in this docket?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. I am responding to the rebuttal testimony of Staff witness, Mary H. Everson.

Q. What is your understanding of staff's position as described in Ms. Everson's testimony?

A. Ms. Everson stated that the Company and Staff are now in agreement on most of the issues that she raised in her direct testimony. I explained Company's position on those issues in which the Staff and Company are in agreement in my rebuttal testimony. Ms. Everson's testimony also identified two issues that remain unresolved. The first involves the Staff's recommendation to preserve records related to the transactions pursuant to the affiliate agreement for seven years and the second involves Staff's recommendation to require Company to compile records identifying employee time spent on job functions identified under the contract.

Q. What is the Company's position with regard to Staff's recommendation concerning a seven-year records retention requirement?

A. After reviewing Ms. Everson's rebuttal testimony and the proposed language to Section 13 of the AES Services Agreement attached to her rebuttal testimony, the Company has decided that it is agreeable to Staff's proposed seven-year records retention period and the language that Ms. Everson proposed be added to Section 13 of the Agreement.

Q. How did Ms. Everson's rebuttal testimony address the issue of records for employee time spent on job functions?

A. Ms. Everson proposed language to be added to Exhibit 1 to the AES Services Agreement. Exhibit 1 lists each of the services that are available to Atmos from AES pursuant to the Agreement. For each of the services, Ms. Everson's proposed language states:

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Q. What is the Company's response to this proposed language?

A. Company is agreeable to including the proposed language in Exhibit 1 of the Agreement.

Q. Please explain Attachment 1 to your testimony.

A. Attachment is the AES Services Agreements with the changes agreed to between the Company and the Staff. The language is identical to the redlined version attached to Ms. Everson's rebuttal testimony. The redlining has been removed and the contract is ready for execution by Atmos and AES upon Commission approval.

Q. Does that conclude your rebuttal testimony?

A. Yes.

AES SERVICES AGREEMENT

This AES Services Agreement (this "Agreement") is entered into as of the _____ day of _____ 2004, by and between Atmos Energy Corporation, a Texas and Virginia corporation ("Atmos" or "Company"), and Atmos Energy Services, LLC, a Delaware limited liability company ("AES").

WHEREAS, AES is an affiliated company of Atmos Energy Corporation;

WHEREAS, AES has been formed for the purpose of providing administrative, management and other services; and

WHEREAS, the Company believes that it is in the interest of the Company to provide an arrangement whereby the Company may, from time to time and at the option of the Company, agree to purchase certain administrative, management and other services from AES for the Company's Illinois operations;

NOW, THEREFORE, in consideration of the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

1. **SERVICES OFFERED.** Exhibit I hereto lists and describes the only services that are available from AES through this agreement. AES hereby offers to supply those services to the Company in conjunction with its Illinois operations.
2. **PERSONNEL.** AES will provide the Services by utilizing the services of such persons as have the necessary qualifications and expertise to provide the Services.

If necessary, AES, after consultation with the Company, may serve as administrative agent, arranging and monitoring Services provided by third parties to Company, whether such Services are billed directly to Company or through AES.

3. **COMPENSATION AND ALLOCATION.** AES will provide the Services at costs not to exceed fully distributed cost.
 - A. *Fully Distributed Costs.* Costs charged on a fully distributed cost basis shall reflect the amounts of direct labor, direct materials and direct purchased services associated with the service provided.

The attached EXHIBIT 1 describes the methods for determining and allocating costs for AES.

5. **TERMINATION AND MODIFICATION.**

- A. **Modification of Other Terms and Conditions.** Other than the notice of Company respecting choice of approved Services, as provided in Section 5.A.

above, no amendment, change or modification of this Agreement shall be valid, unless approved by the Illinois Commerce Commission.

- B. Termination of this Agreement. The Company may terminate this Agreement with AES by providing sixty (60) days advance written notice of such termination to AES. If the Company chooses to contract with another Atmos affiliated company, Atmos will seek ICC approval of the new agreement with that affiliated provider.
6. NOTICE. Where written notice is required by this Agreement, said notice shall be deemed given when mailed by United States registered or certified mail, postage prepaid, return receipt requested, addressed as follows:
- A. To the Company:

Atmos Energy Corporation
810 Crescent Centre Drive, Suite 600
Franklin, TN 37067-6226
Attn: Mr. Tom Blose
Phone: (615) 771-8305
Fax: (615) 771-9704
 - B. To AES:

Atmos Energy Services, LLC
1515 Poydras St. Suite 2180
New Orleans, Louisiana 70112
(504) 522-2614
(540) 522-6094 (Fax)
7. GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without regard to any conflict of laws provisions.
8. ENTIRE AGREEMENT. This Agreement, together with its exhibits, constitutes the entire understanding and agreement of the parties with respect to its subject matter and effective upon the execution of this Agreement by the respective parties hereof and thereto, any and all prior agreements, understandings, or representations with respect to this subject matter are hereby terminated and cancelled in their entirety and of no further force or effect.
9. WAIVER. No waiver by any party hereto of a breach of any provision of this Agreement shall constitute a waiver of any preceding or succeeding breach of the same or any other provision hereof.
10. ASSIGNMENT. No assignment of this contract to another Atmos-affiliated company shall be valid without ICC approval for the change in parties. This Agreement shall inure to the benefit of and shall be binding upon the parties and

their respective successors and assigns. No assignment of this Agreement or any party's rights, interests or obligations hereunder may be made without the other party's consent, which shall not be unreasonably withheld, delayed or conditioned.

11. SEVERABILITY. If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall in no way be affected or impaired thereby.
12. EFFECTIVE DATE. This Agreement is subject to the approval of the Illinois Commerce Commission and shall not be effective until such approval has been obtained.
13. ACCESS TO RECORDS. During the term of this agreement and for a period of seven years after its expiration or termination as to Atmos, Atmos shall have reasonable access to and the right to examine all books, documents, papers, and records (collectively the "Records") which pertain to the services provided by AES pursuant to said Agreement. AES shall maintain all such Records for a period of seven years after the expiration of the Agreement and all such Records for a period of seven years after the termination as to Atmos. During the term of the Agreement and for a period of seven years after its expiration or termination as to Atmos, the Illinois Commerce Commission shall have access to such Records in accordance with Section 7-101 of the Public Utilities Act (220 ILCS 5/7-101) now in effect and as may be modified from time to time, subject to any applicable limitations and restrictions as provided for in said Act, now in effect and as may be modified from time to time, including but not limited to limitations and restrictions governing the dissemination and disclosure of confidential and proprietary Records. Nothing in this Agreement shall be construed or interpreted as a waiver by Atmos or AES of any right, entitlement, claim, or privilege to assert and rely upon any appropriate law, statute, rule, regulation, order, or other instrument, with regard to the production, dissemination, release, or disclosure of any such Records.
14. PAYMENT FOR SERVICES. Payment shall be made by making remittance of the amount billed or by making the appropriate accounting entries on the books of Atmos on a monthly basis.
15. DISPUTED AMOUNTS. If Atmos desires to dispute any amount due for services rendered under this agreement, Atmos shall provide written notice of the disputed amounts including the basis for the dispute. Upon receipt of such notice, the parties shall meet to resolve such dispute.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the date first above mentioned.

Cost Accumulation and Assignment Allocation Methods and Description of Services Offered by AES

This document sets forth the methodologies used to accumulate the costs of Atmos requested services performed by AES and to assign or allocate such costs within Atmos.

Cost Assignment and Allocation

AES costs will be directly assigned, distributed or allocated to Atmos in the manner described below:

1. Direct Costs
 - a. Specific costs from third parties will be directly assigned or charged to Atmos;
2. Allocated Charges
 - b. Fully distributed Costs charged on a fully distributed cost basis shall reflect the amounts of direct labor, and direct materials associated with the services provided.
 - (a) *Direct Costs.* Costs incurred that are specifically attributable to a Party shall be directly charged to the appropriate account number.
 - (i) *Direct Labor.* Amounts of direct labor charged to a Party shall be based on an employee's direct labor rate, reflecting the effects of overtime.

These departments or individuals shall determine a normal distribution of time in an annual review of labor distribution percentages. The distribution percentages shall be used to allocate time with respect to each pay period. Significant deviations of actual activity from these predetermined percentages shall be reported and shall result in adjustments to the predetermined distribution of labor distribution charges.

(b) *Indirect Costs.*

- (i) *Labor Loading.* Direct labor charges apportioned to a Party shall be increased by a loading factor to reflect certain indirect costs such as paid absence and incen-

tive compensation. The paid absence time factor reflects time incurred for vacations, holidays, sickness, jury duty and other paid absences.

(ii) *Benefits Loading.* Direct labor charges apportioned to a Party shall be increased by a loading factor to reflect the cost of employee benefits such as payroll taxes, pension, medical insurance, the company contribution to the 401(k) plan, postretirement health care costs, and the cost of administering employee benefit plans.

(c) *Allocated Costs.* Costs incurred that are not specifically attributable to one rate division but that have joint benefit to two or more rate divisions shall be charged to the appropriate accounts based on specified allocation methodologies listed in Description of Services.

3. Labor distribution studies will be reviewed annually and may be adjusted for any known and reasonable quantifiable events, or at such time as may be required due to significant changes.

Description of Services

A description of each of the services performed by AES pursuant to this Agreement for Company is presented below. As discussed above, where identifiable, costs will be directly assigned or distributed to the Company. For costs accumulated in Account Codes which are for services of a general nature that cannot be directly assigned or distributed, the method or methods of allocation are also set forth. Substitution or changes may be made in the methods of calculating allocation components hereinafter specified, and will be provided to each applicable state regulatory agency and Company.

Gas Supply Procurement

Hedging Administration – Develop and recommend hedging strategy for BU (s) and assist in the development of regulatory hedging filings. Execute filed hedge plan and provide monthly reporting illustrating volumes hedged, price and mark to market value to BU and corporate management. Provide support to BU regulatory and leadership team as it pertains to hedging reporting, performance, compliance and data request. Maintain and develop financial vendor relationships.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Supply and pipeline capacity planning – Develop and provide design day studies utilizing historical daily actual to support design day pipeline, as well as, storage capacity requirements.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Procurement Plans – Develop and provide design day studies utilizing historical data. Plan annual load requirements, pipeline utilization and storage injection/withdrawal plans. Assist BU regulatory teams as needed for compliance filings with state commissions (Data request, etc.)

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Procurement / Contracting – Develop and administer the RFP process for firm supply, transportation, storage services and agency services. Provide an evaluation of bids and recommendation of best options based on price, reliability, flexibility and supplier capabilities. Negotiate and coordinate local production tie-ins and pricing.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Portfolio Management – Evaluate BU(s) options of supply, transportation and storage to optimize most effective and efficient means to serve BU's firm load requirements.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Contract Information Management – Provide for a central distribution of supplier, transport, storage and all other gas supply related contracts.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Contract Negotiations and Execution – Negotiate and evaluate contracts for accuracy before execution. Route to appropriate BU VP Rates for execution by the BU President. Monitor all supply contract expiration and notice dates. Corporate Contracts Administration to distribute executed contract copies to key personnel.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Supplier Relations – Maintain good working relationships with suppliers and service providers in conjunction with BU Presidents. Monitor any changes in supplier organizations that may affect service reliability and accuracy.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Manage Third-party Agency Contracts – Monitor and review all natural gas supply, transportation and storage agency activities provided by a third party. Act as liaison between gas control and all service agents.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

System Load Management

Short term plan forecast - Based on actual daily historical load and weather data; provide daily and monthly requirements by city-gate. Communicate where applicable to gas control daily the supply dispatch plan.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Dispatch & Balancing- Nominate monthly, daily load requirements to all upstream pipelines, suppliers and storage facilities of the BU(s). Forecast and analyze daily current on the load requirements vs. nominations to maintain pipeline imbalance percentages within pipeline tolerance and maintain storage withdrawal and injection plans.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Local Production - Manage accounts, invoice and report local production activities related to volume, cost and un-accounted for where applicable.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Weather Database - Archive daily weather highs and lows by weather area in BU. Calculate and archive average temperatures and heating degree days (HDD). Develop reports current day, month and year to historical averages and peaks.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Load Database - Archive actual city-gate deliveries to third-party transporters and R&C usage by pipeline and weather area. This data is to be utilized for capacity planning, monthly and daily load forecasting.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Pricing Database - Archive pricing related indexes as published by monthly and daily industry publications including NYMEX.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Capacity Management - Utilize forecasted monthly and daily load to evaluate capacity utilization. Execute steps to maximize the value of idle capacity in release markets and asset optimization plans.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per

state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Storage management - Develop and execute injection and withdrawal plans by pipeline to minimize utilization of daily market volatility and support system integrity.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Regulatory Compliance

PGA Reporting Support –Complete actual gas cost schedules to be used in the Regulatory team's monthly PGA filings.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Purchase Gas Cost Estimate - Provide corporate accounting and BU regulatory team with gas cost estimate of current month.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

L&U Reporting - Provide BU's regulatory team and operations team with monthly total city-gate receipts data in a Lost and Unaccounted for report.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

FERC Regulatory Affairs - Monitor all pipeline compliance and related filings. Advise and support corporate legal and BU leadership of any potential issues that may impact the enterprise and our customers.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Commission Data Response Support - Assist BU regulatory team related to gas supply issues.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Testimony Support - Provide regulatory testimony as it pertains to gas procurement services provided.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Accounting Administration

Supplier Invoice Reconciliation - Reconcile supplier invoices with transportation deliveries. Further reconcile transportation and storage deliveries and activities with daily nominations. Approve for accuracy and/or make all appropriate adjustments.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Supplier Invoice Reporting and Coding - Provide cover sheet approvals and account coding for all supplier invoices. Gas cost accounting - Develop and provide supporting schedules and reports to BU and gas supply operation summarizing previous month actual purchase activity. Develop and provide supporting schedules and reports to BU and gas supply operation summarizing current month estimates of purchase activity. Maintain and reconcile invoice log.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Local Production - Manage accounts, invoice and report local production activities related to volume, cost and un-accounted for where applicable.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Gas supply record retention - Maintain three years of purchase backup per BU for data request, prudence review and management studies. Facilitate the archiving of historical data past three years in central records.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.

Gas supply procedures manual - Maintain gas supply procedures manual.

Allocation Methodology: Employee time that is directly assignable will be directly charged. Other general time to be allocated based on the percentage of time spent per state within that monthly reporting period. All other costs not directly assignable to be allocated based on throughput.